

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3288-01
BILL NO.: HB 1274
SUBJECT: Military Affairs; Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 21, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$12,195,829)	(\$48,730,440)	(\$48,730,440)
Total Estimated Net Effect on <u>All</u> State Funds	(\$12,195,829)	(\$48,730,440)	(\$48,730,440)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration (COA)** have deferred to the estimate provided by Oversight.

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction for any active duty or reserve military income. This legislation will become effective January 1, 2001.

The number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center implementation costs will be \$9,007, with on-going costs of \$2,861.

Oversight assumes the Department of Revenue would require 346 hours of overtime at a cost of \$10,404 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$2,815 for additional storage and fields to be captured.

According to the 1998 Statistical Abstract of the United States, Table no. 571, for 1996 active duty military pay plus reserve pay was approximately \$42,746,000,000. **Oversight** assumes 1.9% of the \$42,746,000,000 represents the Missouri portion (\$812,174,000) of active duty and reserve pay. Using a marginal rate of 6% would generate a revenue loss of approximately \$48,730,440 annually.

Oversight estimates a loss to the General Revenue Fund of \$12,182,610 for FY 2001 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2001. **Oversight** assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of military active duty and reserve income in determining state income tax and their desire to adjust withholdings or estimated payments.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Loss to General Revenue Fund

Deduction of Military active duty and reserve pay	(\$12,182,610)	(\$48,730,440)	(\$48,730,440)
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Costs - Department of Revenue

Reprogramming costs	(\$13,219)	\$0	\$0
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

<u>(\$12,195,829)</u>	<u>(\$48,730,440)</u>	<u>(\$48,730,440)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill exempts from individual income tax any income provided to a taxpayer for active or reserve military service.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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Office of Administration
Department of Revenue

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large, circular initial "J" and a long, sweeping horizontal stroke at the end.

Jeanne Jarrett, CPA
Director
February 21, 2000